House Health Policy: Prescription Drug Transparency
House Bill 5223
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Mr. Chairman and members of the House Health Policy Committee –

Thank you for the opportunity to come before you today in support of the concepts behind House Bill 5223, which introduces sunshine into pharmaceutical pricing. We appreciate your attention and leadership on this important topic.

Blue Cross Blue Shield of Michigan has an 80-year history of promoting access to quality, affordable health care for our health insurance members. In Michigan, our 4.62 million members are our top priority. BCBSM's status as a nonprofit mutual allows us to invest the highest percentage possible towards health care and access to quality benefits for our members.

While we work hard to hold down the cost of health care, pharmaceutical costs have continued to rise at an unsustainable rate - accounting for more than 22 percent of our overall costs. In Michigan, drug spending on high cost specialty medications increased by 12 percent in 2017. Additionally, BCBSM spends more on pharmacy than on in-patient hospital costs.

Reports by the Kaiser Foundation and others indicate that spending on prescription drugs is growing faster than spending in any other health care sector and prices are only expected to rise. Costly specialty drug spending is expected to quadruple by 2025; making up approximately 50-percent of all medication costs, outpacing hospital, retail and clinical costs collectively. These prices not only squeeze the budgets of families, employers, small businesses and federal and state governments. They also restrict patient access to life-saving drugs. Statistics show that increasing prices are causing people to skip doses, cut drugs in half or choose to not fill prescriptions.

According to Kaiser, Vox and Altarum studies, secret SEC filings show the increasing costs of pharmaceutical drugs is not attributed as much to research and development costs as it is marketing, advertising and sales. Drug marketing and advertising alone currently account for an estimated 30 percent of overall drug manufacturing costs. Conversely, research and development makes up approximately 17 percent of the list price.

Additionally, recent news stories and investigations by the United States Senate suggest drug pricing is ultimately determined by what pharmaceutical manufacturers think health plans and employers are willing to pay, and what the market is willing to bear. This is problematic because drug companies are granted exclusivity with no restrictions on what they can charge and no competition to help control prices for consumers.

In the case of Evzio, a naloxone drug overdose regimen, the price jumped from $690 to $4500 in 2017. The Hepatitis C drugs Sovaldi and Harvoni had prices set at $84,000 and $94,500, respectively, before there was competition in this drug class and the pharmaceutical industry was forced to address the cost. While newer specialty drugs make up less than 1 percent of the drugs utilized, they account for more than 40 percent of the cost. New treatments with costs ranging from $465,000 to $850,000 are all hitting the market. It is important to know why this is occurring.

For now, the pharmaceutical industry's exorbitant price setting methodology remains a mystery. Until actual costs related to research and development, manufacturing and sales and marketing are known, honest and productive conversations about how to address ever-increasing prices cannot occur. Like

insurers, the public, payers and government entities should have access to the information that justifies their costs and ensures a reasonable rate of return for consumers.

Prescription drug costs are a significant concern. Today, nearly 60 percent of Americans are taking at least one prescription drug on a regular basis. For seniors, that number is 90 percent. The U.S. Senate Special Committee on Aging estimated that Americans spent over $328 billion on pharmaceutical drugs in 2016, including about $50 billion in out-of-pocket costs and $126 billion in federal government spending through Medicare, Medicaid and other government programs.

We believe, conceptually, that House Bill 5223 is a common-sense bill that levels the playing field by placing many of the reporting requirements health insurers and other industries must meet on drug pharmaceutical pricing. Under the bill:

- Pharmaceutical manufacturers would be required to report to the Department of Health and Human Services on the costs of drugs with a $10,000 or more wholesale acquisition costs per course of treatment, including:

    - Totals costs for manufacturing and distributing the drug
    - Research and development costs
    - Costs paid for clinical trials
    - Costs to acquire the rights to a drug, and costs or patents and licensing
    - Costs for marketing and advertising
    - Drug price increases for the year
    - The profit derived from the drug
    - Any financial assistance or tax incentive provided to the manufacturer to assist in the development of the drug
    - Amount of financial assistance provided to patients for the drug for that year

Significant barriers hinder patients' timely access to affordable, safe, effective cutting-edge prescriptions and their generic equivalents. Currently, there is a backlog of over 2,000 generic prescription drug approval applications before the FDA. Further exacerbating efforts to get generics to market, drug companies are not prohibited from the practice "evergreening," a process allowing manufacturers to seek patents for new inventions (slight modifications of existing drugs), effectually extending the drug's patent life and preventing generic equivalents from entering the market. Additionally, brand-name manufacturers are permitted to pay generic drug manufacturers to delay bringing lower-cost generic drugs to market. The Federal Trade Commission estimates this practice costs taxpayers $3.5 billion more per-year in higher drug costs.

Market-based solutions are needed to improve access to prescriptions drugs, make new treatments more affordable, obtain faster approvals for generic medication and greater transparency in drug pricing. House Bill 5223 is a move in the right direction. This legislation is under consideration in many other states and simply offers a window into the cost-drivers associated with prescription drug pricing. Specifically, it requires the aggregated cost-data a pharmaceutical manufacturer already tracks relative to the development, production and distribution of drugs (information that is part of the overall development process). It doesn't require a pharmaceutical company disclose information that is proprietary or confidential in nature, nor does it aim to regulate prices, profits, or advertising dollars spent. Also, not required are any detailed trade secret information or the disclosure of proprietary payment rates paid to clinical trial practitioners.

Finally, House Bill 5223 doesn't introduce a new concept into the health care market. Health insurers are already statutorily required to report our financials to state and federal regulators. All health insurer costs, from health care administration, to rent, to marketing and advertising, are submitted annually to state and federal regulators on a standardized form. That information is then available for review by our competitors, customers, consumer watch-dog groups and the media. The amount health insurers can charge – a rate that must be deemed reasonable by our regulators - can be rejected.

In closing, we can't put a price on the potential to cure disease or alleviate an individual's condition, but we believe checks and balances must be established on this issue that affects everyone.

Thank you for the opportunity to address this important issue.